

Message Text

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13

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W
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P R 030839Z JAN 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC PRIORITY 5821

INFO USINT ALGIERS

AMEMBASSY BRASILIA

AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY COPENHAGEN

AMCONSUL DHAHRAN

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T JIDDA 0017

EXDIS

DEPT PASS CAIRO

KUWAIT PASS DOHA

EO 11652: GDS

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TAGS: ENRG, SA

SUBJECT: OIL PRICES

REF: JIDDA 5715

1. SAUDI MINISTER OF STATE FOR FOREIGN AFFAIRS, OMAR SAQQAF, TOLD ME LATE LAST NIGHT (JAN 2) THAT EARLIER IN THE DAY HE HAD RAISED QUESTION OF OIL PRICES WITH THE KING; SAQQAF POINTED OUT THE EFFECTS THEY WOULD HAVE ON THE WORLD ECONOMY. THE KING LISTENED SYMPATHETICALLY, REPLIED THAT HE HAD ORDERED YAMANI TO KEEP THE PRICE INCREASE REASONABLE BUT ASKED WHAT COULD HE DO NOW IN FACE OF ACTION ALREADY TAKEN BY IRAN, VENZUELA AND OTHERS.

2. I WILL TRY TO SEE THE KING AS SOON AS HE GETS BACK FROM MECCA JAN 6 AND WILL RAISE THIS URGENTLY WITH HIM. BEFORE THEN, I WOULD GREATLY APPRECIATE RECEIVING THE DEPARTMENT'S ANALYSIS OF THE EFFECTS THE PRICE INCREASE WILL HAVE ON THE ECONOMIES OF THE UNITED STATES AND OTHERS, PARTICULARLY DEVELOPING COUNTRIES, ALONG WITH APPROPRIATE COMMENTS AND QUOTATIONS (PREFERABLY FROM NON-AMERICANS) ON IMPENDING DISASTERS, ETC.

3. UNLESS INSTRUCTED TO THE CONTRARY I WILL TELL THE KING: A) OPEC IS IN THE PROCESS OF PROVOKING A WORLD ECONOMIC CATASTROPHE OF THE MAGNITUDE OF THE 1930'S; B) WE DO NOT MAINTAIN THAT PRICES SHOULD NEVER BE INCREASED, A FORMULA FOR OIL PRICES BASED ON THE COST OF ALTERNATIVE ENERGY IS NOT UNREASONABLE AND PRICES COULD BE ALLOWED TO RISE GRADUALLY TO THAT LEVEL OVER THE NEXT SIX TO TEN YEARS; C) THE CURRENT INCREASES IN SOME PARTS OF THEWORLD ARE ALREADY FAR ABOVE THE COST OF ALTERNATIVE ENERGY, ARE TRULY UNREASONABLE, AND MUST RPT MUST BE RESCINDED OR AMENDED; D) SIMILAR APPROACHES ARE BEING MADE (OR HAVE BEEN MADE) TO ALL OTHER OPEC CAPITALS; E) WE UNDERSTAND FULLY THE KING'S MODERATE POSITION, WE APPRECIATE THE STAND TAKEN BY HIS OIL MINISTER IN TEHRAN, BUT THE DECISIONS THERE ARE NOT AND MUST NOT BE IRREVOCABLE; F) COUNTRIES WITH RELATIVELY SMALL OIL
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RESERVES, OR WITH IMMEDIATE USE FOR THE MONEY MIGHT WISH LARGE INCREASES NOW. BUT THIS WILL ACCELERATE THE DEVELOPMENT OF ALTERNATIVE ENERGY AND WILL REDUCE FUTURE OIL PRICES. THIS WOULD NOT BE IN THE INTEREST OF COUNTIRES SUCH AS SAUDI ARABIA WHERE RESERVES ARE HIGH AND THE POTENTIAL FOR USING INCOME EFFECTIVELY IS NOT GREAT; G) THE UNITED STATES BELIEVES THAT SAUDI ARABIA'S INTERESTS IN THIS MATTER ARE IDENTICAL WITH THOSE OF

THE CONSUMERS, EVEN IN THE NARROW SENSE. THIS IS APART FROM THE MUCH BROADER AND MORE IMPORTANT CONSIDERATION OF WORLD ECONOMIC HEALTH; H) ACCORDINGLY, THE UNITED STATES EXPECTS SAUDI ARABIA TO TAKE THE LEAD IN CALLING FOR A NEW OPEC CONFERENCE VERY SOON TO RECONSIDER THE PRICE DECISIONS.

4. COMMENT: ALL PUBLIC AND PRIVATE SOURCES WE HAVE SEEN CONFIRM YAMANI'S STATEMENTS IN REFTEL THAT HIS POSITION IN THE TEHRAN CONFERENCE WAS THE MILDEST. HOW HARD HE FOUGHT FOR A SMALLER INCREASE IS OPEN TO QUESTION, AND HOW MUCH HE WAS ABLE TO REDUCE THE DEMANDS MADE BY IRAN AND KUWAIT WILL ALSO VARY ACCORDING TO ORIGIN OF THE ACCOUNT. BUT THE SAUDIS, AS FAR AS WE KNOW, ARE THE ONLY ONES YET TO SAY THEY WOULD GO ALONG WITH A REDUCTION IN THE CURRENT PRICES. OTHER OPEC COUNTRIES HAVE COMMENTED THAT THE DECISIONS HAVE BEEN MADE IN TEHRAN, THEY ARE JUST FOLLOWING THE LEAD, AND NOTHING CAN BE DONE. SOME-VENEZUELA, LIBYA, NIGERIA-SEEM EVEN TO HAVE GONE WELL BEYOND THE TEHRAN INCREASE. I WOULD LIKE TO POINT OUT ONCE AGAIN THAT WE HAVE NO TIME TO LOSE; OPEC IS PROBABLY SURPRISED AT THE HELPLESS REACTION FROM THE CONSUMERS. SOME PRODUCERS MUST BE CONCLUDING THAT THE PRICE INCREASES WERE NOT INTOLERABLE-EVEN THE SAUDIS HAVE ASKED ME IF I WEREN'T EXAGGERATING THE EFFECT OF THE INCREASES - AND THE KUWAITI OIL MINISTER'S RECENT REMARKS SEEM TO IMPLY THAT THERE COULD BE YET ANOTHER PRICE INCREASE IN THE SPRING.

5. ACTION REQUESTED: I WOULD ALSO LIKE TO BE AUTHORIZED TO SAY THAT THE UNITED STATES IS CALLING FOR A JOINT CONSUMER-PRODUCER MEETING TO DISCUSS PRICES AND SUPPLIES, AND WE WILL EXPECT SAUDI SUPPORT IN

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SUCH A MEETING.
AKINS

NOTE BY OC/T: NOT PASSED CAIRO.

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NNN

Message Attributes

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